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An Empirical Analysis of Small Business Advertising

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Abstract:

An extention of prior research regarding **advertising** media utilization is presented. A survey on how **advertising** media was used by 132 small businesses in Iowa is presented. Owner-managers' perceptions concerning the effectiveness of advertisements placed during the first and current years of operation were measured. Referrals were found to be both the most utilized and most effective **advertising** media by the largest percentage of sample firms. However, newspapers, radio, and telephone directories also were commonly used by a significant number of the sample firms. A stepwise regression analysis of factors affecting the perceived effectiveness of various **advertising** media was employed. Results indicate that one of the most important factors affecting the choice of **advertising** media during the most current year of operation is the media used during the first year in operation.

Text:

Selecting the most appropriate **advertising** media is usually difficult for small businesses. The normal objective is to reach potential customers using the most cost-effective methods available. Jackson and Parasuraman (1988) note that small firms confronted with competition and cost pressures generally have limited financial and professional resources. Therefore, promotional decisions are commonly influenced by the firm's target audience, available **advertising** media, and financial resources (Vaccaro and Kassaye 1988).

Typically, small retail firms place their **advertising** emphasis on newspaper and yellow page ads, with occasional use of radio and television **advertising**. The high costs of production and air time tend to make electronic media ads prohibitive for many small businesses. Trade shows have also been shown to allow small firms to effectively compete with large firms and have personal contact with their customers at a relatively low cost per contact (Brunning and Adams 1988).

The general purpose of this article is to extend prior research regarding **advertising** media utilization. Little is known about the effectiveness of various **advertising** media (Vaccaro and Kassaye 1988), partly because it is generally difficult to measure (Belch and Belch 1990). Therefore, this

article focuses on perceptions of effectiveness of various **advertising** media and uses multiple regression techniques to identify possible salient determinants of that perceived effectiveness.

SAMPLE AND METHODOLOGY

The initial sample of 375 firms was drawn from businesses listed in the 1987 Iowa Business Directory. Half of the sample was drawn from small towns (with populations of less than 10,000), and half was drawn from larger towns (with populations of more than 10,000). To ensure geographic diversity, the sample was further portioned by dividing Iowa into four quadrants and selecting one-fourth of the sample from each quadrant. A proportionate random sample from representative small and large towns also was drawn from each quadrant. The sample provided a representative cross-section of small Iowa businesses.

A questionnaire was developed and pretested in June 1987. The first mailing was sent in early July, 1987; and a follow-up mailing was distributed in late July, 1987. A total of 132 usable questionnaires were returned, providing a response rate of 35.2 percent. The survey collected information on firm demographics, such as years in operation, size of market served (local, regional, national, international), type of ownership structure (sole proprietor, partnership, corporation), total capitalization, type of business (retail, service, and other), and size of local community.

Respondents also were asked to rank, in terms of severity, problems they experienced during their first and most recent years of operation. These problems included establishing market identity, **advertising**, cash flow, personnel, bookkeeping, inventory, short-term debt, long-term debt, and supplier relationships. Finally, each respondent was asked to indicate and rank, in terms of effectiveness, the **advertising** media used during their firm's first and most recent year of operation (television, radio, newspaper, participation in community events, word-of-mouth/referrals, flyers, telephone directory).

Given that most small businesses serve diverse markets and are confronted with a variety of problems, similar firms were expected to have some common problems, one of which was effective use of available **advertising** media. It was further expected that the types of **advertising** media used would change over time, in response to changing markets, resource availability, relationships with media salespeople, etc.

The sample was initially subdivided into three groups (retail, service, and other). The percentage of firms using each type of **advertising** media was tabulated for each group. These percentages were calculated for each firm's first and most recent years of operation. The proportion of firms that ranked each **advertising** medium as one of their three most effective methods was also tabulated for each group, for both the first and most recent years of operation.

A series of stepwise regressions were run in an attempt to identify the significant determinates of the perceived effectiveness of each **advertising** medium. seven regressions were run for both the first and the most recent year of operation--one for each type of **advertising** medium. The dependent variable in each regression was the perceived effectiveness of the **advertising** media being examined. The independent variables in each equation consisted of the firm's demographic characteristics and principal problems that were experienced. (See table 4 for a complete description of the regression variables.) (Table 4 omitted)

RESULTS

Summary data on the characteristics of respondent small businesses indicated that:

(1) The majority of the firms were in either retail (39.6 percent) or service (37.5 percent) businesses. The remaining firms (22.9 percent) were in other categories such as finance, construction, agriculture, wholesale, professional, and manufacturing.

(2) More than one-half (58.8 percent) of the small businesses operated as

sole proprietorships; 17.5 percent were partnerships; and 23.7 percent were corporations.

(3) Almost all of the firms served either a local (69.8 percent) or regional (26.9 percent) market.

Only 4.2 percent served an international market.

(4) The majority of the firms (51.4 percent) had an initial capitalization of less than \$20,000. Of the remaining firms, 27.8 percent required \$20,000-\$50,000; 11.4 percent required \$50,001-\$100,000; and only 9.4 percent required more than \$100,000 to begin operations.

Table 1 shows the percent of firms using each method of **advertising** during their first year in operation and during the current year. (Table 1 omitted) Referrals, newspaper, and telephone directories were generally the most frequently utilized **advertising** media during the first year. Each of these methods was used by more than 20 percent of the retail and other types of firms and 15 percent of the service type firms. Radio **advertising** also was used by more than 20 percent of the retail firms. Use of television was generally the least utilized of the media examined, less than 5 percent.

The same general pattern is found for the most recent year of operations. All categories of **advertising** are generally used by fewer of the retail and other firms during the most recent year, except television and community events. Service firms rely more on referrals, radio, and television during the most recent year than during the first year.

Table 1 presents the utilization rates for **advertising** media by type of business. The pattern of use by the different types of businesses was similar. Referrals and newspapers were consistently used most often during both the first and current year. The only exception was that telephone directories were used slightly more than newspapers by service firms in the most recent year. Television **advertising** was consistently used the least by all firms. Service firms used all forms of **advertising** less often than retail and other firms in both the first and most recent years (the exception being use of community events during the first year).

It is difficult to know with certainty why service firms advertise less than retail and other firms, but it is possible that services tend to be intangible and may be difficult to demonstrate effectively with printed **advertising** media. Service provision also may be more dependent upon interpersonal relationships between the service provider and client than are retail sales, particularly of nationally advertised brands. In the latter case, this relationship may be a less important consideration. An examination of the changes from the first to the most recent year generally indicates that use of television **advertising** increases, while use of newspapers, radio, flyers, and telephone directory tends to decrease. Service firms deviate somewhat from this pattern by using more radio, flyers, and referrals in their most recent year than their first year of operations.

Table 2 shows the percentage of firms ranking specific **advertising** media as one of their top three in terms of effectiveness. (Table 2 omitted) Examining the rankings by business category shows differences in perception relative to type of firm. Referrals were ranked as the most effective by the highest percentage of firms. This finding seems a reasonable one. Referrals would be expected to have the advantage of greater source credibility. In fact, referrals may not be viewed by consumers as **advertising** at all, which would enhance their believability. Crane has called credibility the most important source characteristic in **marketing** communication (1972).

In this survey, television **advertising** was least often ranked as one of the most effective **advertising** media. Radio, the only other form of electronic media examined, was also generally not ranked as one of the most effective **advertising** media by the respondents. However a higher percent of retail firms ranked radio higher in terms of effectiveness than did service and other firms. Electronic media are particularly difficult in terms of quantitative measures of effectiveness, which might partially

account for this finding.

The **advertising** media that the respondents ranked as the second most effective varied by business category. Radio **advertising** was ranked second by retail firms during the first and current years. The second most frequently ranked **advertising** media by service and other firms were newspapers and telephone directories, respectively, during the first year.

These effectiveness ratings generally indicate that there is little change in how small business owners perceive **advertising** after being in operation for several years. The shifts in the effectiveness rankings of various media included the following: (1) retail: slight increases in the ranking for radio and television, while all other **advertising** methods were ranked lower. The number of firms ranking referrals, telephone directories, and flyers as highly effective decreased the most; (2) service: a large increase in the rankings for radio and flyers (referrals increases slightly). A large decrease in the ranking for newspapers was also evident; and (3) other: large increases in newspapers and community events, while most other media were ranked lower.

The patterns exhibited in tables 1 and 2 are generally comparable. High/low usage of a particular **advertising** medium are generally accompanied with a high/low effectiveness rating during the first and current years. Table 3 shows the results of the stepwise multiple regressions that attempt to identify significant explanations of observed differences in the perceived **effectiveness** of the seven alternative **advertising** media for small businesses in Iowa. (Table 3 omitted) The regression results are presented for the **advertising** media examined and for both the first and most recent years of operations. The regression coefficients, t- **statistic**, and level of significance are shown for each variable. Also, the regression variables are listed in the order they were added to the model by the stepwise regression procedure, along with the partial R2 for each variable. The overall F-value and level of significance and adjusted R2 for the final model, for both the first and most recent year for each of the seven **advertising** media, also are presented. Only those variables found to have a p-value of less than .05 were included in the regression models.

During the first year of operation, the effectiveness of the **advertising** media utilized was expected to be related to the characteristics of the business and market served. As shown in table 3, the effectiveness ranking of television, newspapers/magazines, radio, telephone directories, and word-of-mouth referrals were found to be significantly related to some of the variables examined in the first year of operations.

The regression results indicate that the effectiveness ranking of television is positively associated with whether or not the firm is organized as a corporation and the size of the community in which it is located. The effectiveness of newspapers/magazines is generally negatively associated with the size of the community. The effectiveness of radio **advertising** is positively associated with the firm being a retailer and the firm's initial capitalization; it is negatively associated with market size. The effectiveness of telephone directory **advertising** is positively associated with the size of the community and negatively associated with being organized as a corporation. Finally, the effectiveness of word-of-mouth referrals is positively associated with being in the service industry and being organized as a partnership.

Table 3 also presents the results of regressions that attempt to predict the effectiveness of the current year's **advertising** media. For all media examined, the most important determinant of its effectiveness in the current year was whether or not it was ranked as one of the three most effective media in the first year of operations. Firms were originally hypothesized to change their **advertising** mix over time. Instead, the regression evidence indicates that the forms of **advertising** deemed most effective and used currently were generally ranked as one of the most effective forms of **advertising** in the first year of operations as well. This result suggests that small businesses do not change their assessment of the relative effectiveness of alternative **advertising** media as they become more established.

While this finding may seem counterintuitive at first glance, given that growing firms' needs change, it is not inconsistent with some findings regarding cognitive processing and mental structures. Once a cognitive structure is formed (an idea accepted) a person may become increasingly resistant to change over time (Fiske and Taylor 1984). Therefore, once a small business manager has formed an initial opinion about the effectiveness of particular **advertising** media, this opinion is likely to be fairly enduring, unless strong contrary evidence is presented. Given the difficulty of assessing **advertising** effectiveness, it should not be surprising that managers retain early evaluations and continue to use what is familiar and tested.

CONCLUSIONS

This study reports the results of a survey of the **advertising** methods used by 132 small Iowa businesses. **Advertising** methods used during the first year of operation and the current year were discussed and contrasted. Determinates of the small businesses' methods of current **advertising** were identified.

During the firm's first year in operation, referrals, newspapers, radio, and telephone directories were commonly used by all categories of firms. The pattern is similar for the current year of operations. This finding is consistent with Vaccaro and Kassaye (1988), who state that most small firms advertise primarily in newspapers and radio; but it is inconsistent with their observations that small firms also frequently use television.

Use of telephone directory **advertising** was also relatively common, which is consistent with the finding by Jackson and Parasuraman (1986). Although reported by Browning and Adams (1988) to be an effective **advertising** method for small businesses, trade shows (which appeared as "other--please specify" in the questionnaire) were seldom used. Other forms of **advertising** generally did not appear to be commonly used, since few were reported.

In terms of effectiveness of various media, referrals were ranked highest by all categories of firms during the firm's first year in operation. Retail firms ranked radio, while service and other firms ranked newspaper and telephone directories, respectively, as being second most effective. While the general pattern of rankings are consistent among retail, service, and other firms, some minor changes in rankings of effectiveness between the first year in operation and most current year were evident. The changes in rankings of the alternative **advertising** media varied by category of firm.

One of the most significant findings of this study is that firms continue to choose the method of **advertising** used during their first year in operation. Several factors could explain this trend. Small business owners may not be adept at selecting appropriate **advertising** media. Alternatively, their choice may be limited by affordability, as suggested by Seglund (1985). Another possibility relates to the nature of many small business owners. Varadarajan (1985) suggests that small businesses are too preoccupied with day-to-day operations to formulate promotional plans. As a consequence, they may conveniently continue to use the **advertising** method initially selected. The difficulty and costs of measurement may be perceived as prohibitive by many small business owners, forcing them to rely on their own judgment, experience, and assistance (albeit biased) provided by the media themselves.

The limitations of this study provide opportunities for continued research into **advertising** methods at small firms. The use of a national sample of firms would provide a more comprehensive understanding of **advertising** methods of small firms and permit many types of cross-sectional studies, especially geographic and rural-versus urban comparisons. Further research also should include other variables expected to be related to small business **advertising**, such as adeptness at media selection and level of preoccupation with operations. Surprisingly little research has been completed on the use of **advertising** by small firms, and further knowledge could provide a better understanding of small business practice, thereby helping to foster small business success.

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